Financial Markets

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

Friday
(Noon)

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Anxieties of many market participants increased a notch this week, as dealers began to ponder next week's Treasury refunding announcement, against a background of economic data somewhat less encouraging than many had expected. On Wednesday, the price deflator for gross national product was reported to have increased in the third quarter at a 9.4% annual rate, a sharp--though probably temporary--acceleration from the 6.4% rate noted for the second quarter. Adding to the market's anomie was the distinctly higher trading range of the Federal funds rate after the weekend. That also was probably due, in part, to problems with the Fed's reserves projections, but in any event it left little doubt that reserve provision continues in the holding pattern of the last several weeks.

Market participants were also somewhat concerned with the $5.6 billion increase in M-1B reported last Friday. Although a number of special factors contributed to expectations of a sizable increase, in retrospect it conforms very well to the pattern of increases observed for weeks in which Social Security payments are made on Friday.

The average size of such changes has grown larger as monthly Social Security payments have risen. In addition to the gradual increases caused by the expanding recipient population, the payments ratchet upward each July, when they are adjusted for increases in the Consumer Price Index. During the July 1976-June 1977 period, the average monthly Social Security payment was $8.4 billion, while the average change in M-1B in statement weeks with a Friday payment was $0.3 billion. For the July 1980-June 1981 period, the average monthly payment was $13.8 billion, and the average change in M-1B in weeks with a Friday payment was $3.8 billion (excluding the first week in January, which was affected by the introduction of NOW accounts)--increases from the earlier levels of $5.4 billion and $3.5 billion, respectively. The average change for July 1981 to June 1982 probably will be even larger. Social Security payments were increased 11.2% in July, and the two Friday payment weeks so far have registered increases of $7.2 billion and $5.6 billion. Interestingly enough, changes of M-1B in the statement week following a Friday payment week have been getting larger. During the July 1980-June 1981 period, M-1B on average declined $0.8 billion in the following week; five years earlier, such weeks averaged a $0.8 billion increase.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on page 7320 on the Monday morning following the Friday date of the letter.

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Market Yields

	10/23/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	18.00%	18.00%	14.00%
Effective since	10/13/81		
Discount Rate at Federal Reserve Bank	14.00	14.00	11.00
Federal Funds	15.13	15.00	13.25
Repurchase Agreements	14.88	14.50	12.50
U.S. Treasury Issues			
Bills			
3 months	13.87	14.12	12.35
6 months	14.89	14.94	12.70
1 year	15.23	15.16	12.74
Coupons			
2 years	15.42	15.34	12.36
4 years	15.46	15.18	12.25
7 years	15.43	15.17	12.04
10 years	15.31	15.09	11.75
Long Bond	14.85	14.47	11.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	15.10	15.00	13.05
3 months	15.35	15.20	13.20
6 months	15.60	15.60	13.25
1 year	15.50	15.75	12.85
Banker's Acceptances			
1 month	15.10	14.85	12.90
3 months	15.36	15.20	13.15
6 months	15.65	15.65	13.44
Eurodollar Deposits			
1 month	15.63	15.50	13.38
2 months	15.94	15.75	13.81
3 months	16.25	16.06	13.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	14.63	10.00
1 month	14.88	14.63	12.50
3 months	14.50	13.75	12.00
Bank Holding Companies			
1 month	14.63	14.00	12.50
Dealer Placed:			
3 months	14.75	14.88	12.25
New AA Corporate Utility Bond	18.15	17.40	13.63
Tax Exempt			
6 month Project Notes	8.70	8.75	5.90
1 year AAA Bond	8.75	8.60	6.00
5 year AAA Bond	9.70	9.00	6.50
20 year AAA Bond	12.70	11.40	8.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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